

**RIO DELL CITY COUNCIL
STUDY SESSION
APRIL 23, 2018
MINUTES**

A Study Session of the Rio Dell City Council was called to order at 4:00 p.m. by Mayor Wilson.

ROLL CALL: Present: Mayor Wilson, Mayor Pro Tem Johnson, Councilmembers
Garnes, Marks and Strahan

Others Present: City Manager Knopp, Finance Director Woodcox, Water/
Roadways Superintendent Jensen and City Clerk Dunham

STUDY SESSION MATTERS

Review of Water Operating and Capital Budget for FY 2018-2019

City Manager Knopp began by stating that this is the first in a series of budget workshops and reviewed the budget calendar related to adoption of the FY 2018-2019 Operating and Capital Budget.

Finance Director Woodcox continued with review of the Proposed Water Fund Budget beginning with the Budget Summary by Department and Fund (Attachment 1 to these minutes). She explained the Water Department Budget is comprised of the following funds:

- 062 Water Capital Fund
- 063 Water Metropolitan Wells Fund
- 064 Water Dinsmore Zone
- 061 Water Restricted Reserve
- 061 Water Debt Service Fund
- 062 Water CIP Grant
- 060 Water Operations Fund

She provided an overview of each fund including a description of each fund, the beginning fund balances, projected revenues, projected expenditures, and the ending reserve fund balances.

Total projected revenues were reported at \$1,658,862 and total expenditures at \$1,554,149 representing a change in reserves of \$104,713 for the year bringing the estimated ending fund balance to \$1,268,907.

Finance Director Woodcox then explained how the Water Debt Service Fund works and said a portion of each water bill collected is allocated to go into that fund to cover the annual debt service payment of \$136,000. She said the way Accufund works, a percentage of the total revenue collected automatically goes into that account rather than a fixed amount. She said it was set up based on the Water Rate Study but because water revenue varies depending on various factors, the Water Debt Service Fund is collecting more than the \$136,000. The projected revenue for the Water Debt Service Fund was reported at \$172,821.

She noted that with Council approval, the excess revenue could be put into the Water Restricted Reserve account.

Mayor Wilson questioned what happens once the revenue reaches the \$136,000 debt service payment amount.

Finance Director Woodcox explained that the revenue stays there until the debt service payment is paid.

Mayor Pro Tem Johnson asked what the logic is behind the \$17,291 projected revenue for the Metropolitan Wells.

City Manager Knopp explained that there is no real logic and noted that this is the first year the wells will be in operation. He said originally the plan was to only operate the wells 15 days a year and under emergency situations but that status has changed so the wells are classified as a secondary water source for the City. As such, it is unknown how often they will be used.

Mayor Pro Tem Johnson expressed concern that the number could change dramatically depending on the condition of the water in the Eel River.

Discussion continued regarding the fixed and variable portion of the water bill.

Finance Director Woodcox explained the methodology of the rate structure and said that 75% of the rate is a fixed charge and the remaining 25% is variable.

Councilmember Strahan questioned how the Council could look at the current year budget without looking at the prior year's revenues versus expenditures to see how they compare with the proposed budget. She said she would like to look at the 2016-2017 actuals for revenues and expenditures.

Mayor Wilson pointed out that every year there is an automatic increase in water rates and it is set to continue in perpetuity. He mentioned the extra revenue collected for the debt service payment and the burden the water rates place on the elderly and other fixed income residents. He questioned the reason for continuing to raise water rates in addition to the automatic annual 3% increase. He also commented that enterprise funds could not show a profit.

Finance Director Woodcox said she posed that question to Richard Culp from California Rural Water who was assisting the City with the Water Rate Analysis and his answer was that the City has so many capital needs that the revenue will never exceed the cost to maintain the system.

Mayor Wilson indicated that he would like to review the City Council minutes when that discussion took place.

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Councilmember Garnes asked if the City Council has the authority to stop the annual increase.

Mayor Wilson said he thought the Council reserved that option.

Mayor Pro Tem Johnson suggested staff research the City Council minutes and report the outcome of that discussion at the next meeting. Council concurred.

City Manager Knopp said the reason he is recommending water and wastewater rate studies is to make sure rates are in line with the budget.

Discussion continued regarding whether the excess water debt service revenue should go into Water Capital.

Councilmember Strahan questioned how infrastructure improvements would get done without having an adequate fund balance.

City Manager Knopp pointed out that part of reason for having a healthy balance in the Water Capital Fund is to be able to leverage grant funds. He noted that the City would not have acquired the \$444,000 Planning Grant if the water rates had not been adjusted accordingly.

Councilmember Strahan asked what expenditures come out of Water Capital.

City Manager Knopp explained a potential 20% grant match would come out of the fund and any major capital improvements such as the Old Ranch Road water line.

Finance Director Woodcox noted that under Gasby, expenditures over \$5,000 come out of Capital; expenditures under \$5,000 come out of operations.

Mayor Wilson commented that the graphs presented don't help and that he would still like to see the basis for the \$47.00 water rate. He said it should be as simple as dividing the \$136,000 debt service amount by the number of rate payers to come up with the portion of the bill that needs to go to the debt service fund.

Finance Director Woodcox pointed out that water revenues vary from month to month so it isn't a fixed amount.

City Manager Knopp noted that over the next year, it is important to do another rate analysis with someone who is committed from the beginning to the end. He said he wouldn't say the water fund is making money because the liabilities far exceed the capital needs of the system. He stressed the importance of setting the rates at a level that enables the City to leverage grant funds.

Discussion continued regarding the criteria for qualifying as a disadvantaged community.

City Manager Knopp explained that there are different standards for example the school or the CDBG Program and that it is important during the next census update that citizens fill out the surveys.

Next was review of the pie chart of water fund expenditures representing 49% operations, 29% CIP grant, 12% water capital, 9% water debt service, and 1% Metropolitan Wells.

Mayor Wilson stated that the \$444,000 for the Water CIP Grant is basically a pass-through, and asked what the fund would look like without it included.

Finance Director Woodcox agreed to re-run the numbers without the grant included and send it to Councilmembers.

Councilmember Strahan commented that the \$444,000 does convolute the budget numbers.

Finance Director Woodcox assured the Council that she was not trying to eschew anything.

Councilmember Strahan said that she would like to see a Profit and Loss Statement from last year and that she trusted staff but wanted to see real numbers.

Mayor Wilson asked for the schedule for the annual rate adjustments.

Finance Director Woodcox indicated the annual water rate adjustment is January 1 and the wastewater is July 1.

Mayor Wilson questioned whether it would be more beneficial to have both rate adjustments effective July 1.

Finance Director Woodcox continued with review of the proposed budget of \$529,128 in comparison to the previous year's adopted budget amount of \$436,580. She noted that additional budget requests include \$40,666 for 50% of a full-time Water Operator; 10% of a part-time Utility Worker for \$2,182, additional Metropolitan Wells Expenditures of \$24,200, \$2,000 for Dinsmore Zone expenditures, and \$30,000 for a Water Rate Analysis Study. Also shown was a reduction in miscellaneous costs of \$6,500.

Mayor Wilson questioned the \$30,000 for a Water Rate Analysis.

City Manager Knopp explained the analysis would assess the needs of the water system to make sure they are met, look at the current water rates to determine if the City is over charging

or under charging, take a more comprehensive approach regarding rates, and basically fine tune the entire picture rather than just do an emergency re-write.

Mayor Wilson asked if the study considers the time staff puts into it and pointed out that the numbers need to be absolutely solid or the rates can be challenged and said staff time also needs to be accurate so that no one can say that money from the rates is going into the general fund.

Finance Director Woodcox explained the analysis she used in establishing the account distribution tables and said she actually counted the number of checks processed out of each fund and other tasks to come up with a cost ratio analysis. She said with regard to the City Manager department, she looked at his workload. She added that she does a lot of research to make sure the City is in compliance.

Mayor Wilson commented that there are people who don't move to Rio Dell because of the high water and sewer rates and the City needs to be sure it can show justification for the rates.

Discussion continued regarding the breakdown by fund of the City Manager's time.

Councilmember Strahan said she would like to see the individual breakdown by fund.

Finance Director Woodcox explained that at the end of the budget review process, the Council will see all the pieces of the budget come together.

Next was review of the proposed Capital Projects.

City Manager Knopp pointed out that this is an area where the City has cut back on spending. He said in the height of the drought, costs were reduced as well as Capital expenditures. He provided an overview of the proposed Capital projects and noted that the utility truck, roller and trailer, and forklift were items carried over from the previous budget. He clarified that these costs represent a portion of the actual cost of the equipment as there is a portion coming out of the sewer fund and street funds as well. He said the filter coating and Douglas tank painting were items staff hoped to wrap into the grant but every year the need worsens so the work needs to be done as soon as possible.

He further explained that the \$20,000 for Access TV was only an estimate so that number could potentially change.

Councilmember Marks asked if the City is required to provide audio and/or video recordings of meetings.

Mayor Wilson commented that inclusion of the Access Humboldt expenditure was requested by Sharon Wolfe and he thought that it would be a good idea to preserve un-modified recordings of Council meetings.

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City Manager Knopp pointed out that with the full \$184,000 in Capital Projects, the Water Fund budget is still balanced. He indicated that if the City receives Prop 1 grant funding, there would also be the required grant match by the City.

Councilmember Strahan asked for clarification that the reason these projects are coming out of the Capital fund is that there isn't enough money in the Water Operations Fund.

City Manager Knopp explained that each of the proposed expenditures is over \$5,000 so they are Capital expenditures.

City Manager Knopp pointed out that the City doesn't have large industry to help subsidize the water fund and the majority of the water rate revenue comes from residential ratepayers. As such, to the extent that the City has the ability to leverage grant funding it is extremely important. He said if the City hadn't adjusted the rates, the city potentially could have lost control of the water system by being forced to sell it to other investors. He commented that this budget is a transition of past budgets to the creation of an easier to manage water system for the long term. He said the other grant piece is the aging Water Distribution System.

Mayor Wilson noted that the Dinsmore Zone pays additional fees to cover the cost of operating that portion of the system and those revenues and expenditures need to be carefully tracked.

City Manager Knopp noted that those revenues and expenditures will go into the water operations fund but they will have their own account number so they can be tracked.

Mayor Pro Tem Johnson commented that for the Prop 218 process there needs to be backup to show that the Dinsmore zone costs more to operate.

Water/Roadways Superintendent Jensen stated that staff can track all of the expenditures related to the Dinsmore Zone but not necessarily labor, noting that they don't spend a lot of time up there anymore.

Mayor Wilson commented that he doesn't doubt the Finance Director even though he comes across a little gruff.


COUNCIL REPORTS/COMMUNICATIONS

Mayor Pro Tem Johnson said he brought in a picture of an American eagle flag and said with concurrence of the Council he would like it put up in the Council Chambers. Council concurred.

ADJOURNMENT

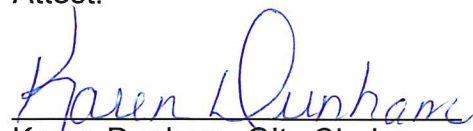
The meeting adjourned at 5:40 p.m. to the April 24, 2018 Study Session at 4:00 p.m.

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Frank Wilson, Mayor

Attest:



Karen Dunham, City Clerk